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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 1184

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0398

RUEHAK/AMEMBASSY ANKARA PRIORITY 4043

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1860

RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0193

RUEHKO/AMEMBASSY TOKYO PRIORITY 1727

RUEHIT/AMCONSUL ISTANBUL PRIORITY 2296

RHMFIS/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000917

SIPDIS

STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: DECL: 07/18/2018

TAGS: PREL PGOV EPET AJ TX

SUBJECT: TURKMENISTAN: STATE AGENCY EXECUTIVE DIRECTOR
RULES OUT AN INTERCONNECTOR FEASIBILITY STUDY -- FOR NOW

Classified By: Charge d'Affaires Sylvia Reed Curran for reasons 1.4(B) and (D).

¶1. (C) SUMMARY: During a July 16 meeting, the Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources, Bayrammurat Muradov, told U.S. Trade and Development Agency (USTDA) Regional Manager for Europe and Eurasia Dan Stein that the State Agency was pleased with the results of USTDA's just-concluded training program and wants more. He suggested a much longer, on-the-job training program which will require some planning to implement. He was less willing, however, to entertain the idea of a feasibility study for an interconnector pipeline linking Turkmenistan's block I with Azerbaijan, stating that this was a "wrong approach" that would change his government's goals. Given Turkmenistan's policy of only selling gas "at the border," it seems clear that the feasibility study is off the table until the two sides are closer to finding consensus on an interim solution for dealing with the disputed border area. END SUMMARY.

¶2. (SBU) During a July 16 meeting, the Executive Director of the State Agency for Management and Use of Hydrocarbon Resources, Bayrammurat Muradov, told U.S. Trade and Development Agency (USTDA) Regional Manager for Europe and Eurasia Dan Stein that the State Agency is pleased with the results of the training program that USTDA provided to Turkmenistan's hydrocarbon officials. The program gave officials a general understanding of key hydrocarbon issues, including technological, legal, environmental, economic and marketing issues. Although invited to do so, Muradov offered up no criticisms of or suggestions for the program.

¶3. (SBU) Muradov was enthusiastic about the possibility of a follow-on program. He suggested a program which would send trainees to the United States for more intensive on-the-job training on the technical, economic, environmental and legal aspects of the hydrocarbon sector. Specifically, he asked that two to three trainees be sent in each area for six to

twelve months. He also requested that the trainees be allowed to briefly return every two to three months to allow them to stay in touch with "reality" and to download their new knowledge to colleagues. In response to a question from Stein, Muradov stated that Turkmenistan's hydrocarbon sector can find up to 12 trainees that it would be willing to release from their duties so that they could participate in such a program. Muradov was less enthusiastic about a Stein proposal to provide case study seminars focused on practical application. He stated that "we are doing this already within the State Agency and, in some cases, are even inviting experts." Stating that USTDA has never done a program like the one Muradov outlined and that the price would be high, Stein promised to consider ways of meeting Turkmenistan's needs within USTDA's financial constraints.

PETROLEUM LAW ALMOST READY FOR PRIME TIME

¶4. (SBU) Responding to a question from Stein, Muradov told Stein that the redraft of Turkmenistan's petroleum law is nearing completion and the State Agency has discussed the law with the Mejlis (Parliament) twice. Muradov claimed that, in drafting the law, the State Agency has consulted with several experts and has taken input from foreign companies obtained during negotiations into account. The government wants the new law to be more attractive to potential investors. Major changes include better definition of the State Agency's role, discussion of different types of contracting arrangements and a clearer listing of environmental requirements. Muradov took on board Stein's suggestion that the law's passage

ASHGABAT 00000917 002 OF 003

before the September joint oil and gas conference in Baku would be optimal.

INTERCONNECTOR FROM BLOCK I A "WRONG APPROACH"

¶5. (C) Muradov noted that Turkmenistan is interested in diversifying its natural gas delivery routes. It understands the benefits of doing this. But the experts with whom the State Agency has discussed the costs of various alternative pipelines have not agreed on the costs involved. Some experts have said the costs would be higher than transporting the gas through Russia; others have claimed the costs would be lower. Stein responded that the only way to get a clearer idea of the amounts involved in an offshore interconnector pipeline between Turkmenistan and Azerbaijan is by conducting a feasibility study. This, he said, would give both countries' leaders a more concrete, realistic idea of the figures involved. However, Muradov rejected Stein's suggestion that a feasibility study of an interconnector pipeline originating in Turkmenistan's block I (Livanov, currently being worked by Malaysia's Petronas) could be carried out until Azerbaijan and Turkmenistan have defined their border.

¶6. (C) Stating that the issue is one of economics rather than politics, Muradov drew a thumbnail sketch of the area disputed by the two countries. Pointing to block III (Serdar/Kyapaz, an area claimed by both countries), he said, "You (the United States) want to come up with numbers from block I, but we want to start from here. First we need to determine where we are selling the gas. How can you determine the prices involved if you don't know where the line is?" Growing increasingly emphatic, Muradov rejected Stein's suggestion that the study could consider several different cases. "It's impossible to discuss block I. We have assets here (in block III). Talking about your Livanov proposal is like talking about only those U.S. assets in Houston, without taking into account its assets in Washington DC. It (block III) is ours. Please don't politicize our assets! Impossible!"

¶7. (C) Muradov suggested that it is also necessary to take into account Turkmenistan's assets from blocks II and III. (COMMENT: We assume, but are not certain, that in referring

to block II, Muradov was discussing Dragon Oil's offshore holdings just off of the Cheleken (Hazar) peninsula. However, none of the embassy's hydrocarbon contacts have been able to confirm definitively that this is true, nor have any of the embassy's new or old maps used this designation to describe the Dragon Oil block. (END COMMENT.) When Stein suggested that the study would take into account existing infrastructure, Muradov claimed that Turkmenistan already has infrastructure in block II and will have some in block III. Muradov said again that Stein's proposal is a "wrong approach" because it changes Turkmenistan's goal. Muradov stressed that both presidents are working hard to resolve the border issue. The Charge asked whether the problem with the interconnector is that Turkmenistan's gas can only be sold at the border and not from a point on shore. Muradov responded affirmatively, stating that "today we are selling at the border and need to know where the border is."

CHEVRON VISIT

¶8. (C) Charge raised the fact that Chevron had submitted a letter requesting a meeting for Vice President Jay Pryor with President Berdimuhamedov and noted that the meeting would be useful in explaining Chevron's proposal. (NOTE: Chevron submitted the request several weeks ago but has not yet

ASHGABAT 00000917 003 OF 003

received a response. (END NOTE.) Muradov responded that he, too, hopes that the meeting will be useful and the president will have time to meet with Pryor. "We'll look at the possibility," he added.

¶9. (C) COMMENT: While the State Agency is ready for more USTDA training, it is clear that USTDA's proposal for an interconnector pipeline feasibility study is still a step too far. While we continue to believe that the two sides may eventually find consensus short of delimitation that will allow construction of an interconnector pipeline, they are not close enough to that point yet for Muradov to be able to acknowledge that possibility. (END COMMENT.

CURRAN